



Daryl A. Katz
Chairman

October 16, 2012

Mayor Stephen Mandel
Mayor of the City of Edmonton
2nd Floor, City Hall
1 Sir Winston Churchill Square
Edmonton, AB T5J 2R7

Dear Mr. Mayor:

I was extremely disappointed by the recent communications from the City of Edmonton to the Katz Group regarding the downtown arena project. We had thought we were making considerable progress, but it seems from your recent communications that, in fact, we have gone backwards. Aside from the many issues still to be resolved, we and the City cannot even agree on basic assumptions relating to the financial aspects of operating a new arena.

In the words of the leadership committee you appointed nearly five years ago, this project was to be "Edmonton's greatest opportunity".

I bought into that vision wholeheartedly and have committed an extraordinary amount of time and money to make it a reality. From day one, my goals have been simple and clear: (1) to ensure the Edmonton Oilers could be sustainable in Edmonton for the long-term, and (2) to accelerate the long overdue and much-needed revitalization of our downtown core.

To achieve these goals, I have been prepared to invest upwards of \$250 million to help build an arena that the City of Edmonton would own, and to sign a 35-year commitment to keep the Oilers in Edmonton, where they belong. By any objective measure, this far exceeds what NHL owners in comparable cities have done.

I have also been prepared to invest over \$1 billion in a private sector development that would transform our city and generate new tax revenues that your Administration has "very conservatively" estimated at \$1.2 billion, with only the arena as a catalyst -- and \$1.6 billion if we proceed with just the first phase of our planned development. Much of these new tax revenues, which would benefit Edmonton and Edmontonians for generations to come, will not otherwise be realized, at least not in the next many years and not without a new arena as the catalyst project.

Lest anyone question my commitment to the arena or to this development, I have already invested \$70 million towards realization of the private sector development through land purchases and extensive design and other work. This is more than double City Council's unilateral requirement that we invest at least \$30 million in the private sector development before it would authorize proceeding with the arena on any basis.

I fear the City has approached this negotiation based on narrow political considerations rather than a genuine desire to strike a deal that is fair and makes economic sense for both sides. I base this, in part, on your repeated insistence to the press that we somehow have a "deal" based on the New York framework. As you know, it was not a deal, but a framework that we each thought we could support, subject to actually proving it out and ensuring it would achieve our mutually recognized goal of ensuring the long-term sustainability for the Oilers. In plain terms, we all understood the devil would be in the details, and indeed it was.



Since New York, we have been able to model anticipated operating costs and revenues based on the arena's actual design and with input from AEG, ICON and Bigelow, one of North America's leading venue food & beverage consultants. The simple and unfortunate fact is that the costs came in higher than expected, and revenues lower. This, as well as our need for operating support, has been a subject of ongoing discussion with you and your Administration going back to the Spring. It may be true that City Council was unaware of these discussions, which is unfortunate, but I do not think the Katz Group should be blamed for that.

The bottom line is this: Before we can sign a 35-year location agreement and invest more than a quarter-billion dollars into a new arena that the city will own -- let alone invest more than \$1 billion into other private development around it -- we need a solution that makes economic sense for both parties and creates a sound basis for the long-term sustainability of the Oilers in Edmonton.

We simply cannot take the kind of risk the current framework entails over 35 years with the potential for only nominally positive returns on our capital *when times are good*, and the potential for significant ongoing losses when conditions are difficult for small market teams in Canada -- as they have been for most of the last 35 years.

This is only fair and reasonable, and we are seeking far less to achieve a deal than other teams have received in other cities. We continue to believe there is no reason Edmonton cannot do what Pittsburgh, Columbus, Winnipeg, Quebec City and other cities have done to build new arenas and/or sustain their NHL franchises. (Details on these and other points are included in the attached letter published in today's Edmonton Journal.)

Perhaps with more time and political leadership, this project can still be saved. But as it stands, we remain far apart both on substance and process. On substance, as you know, there are 15 open issues in our negotiations. On process, as we previously advised, we will not make a proposal to City Council that does not have Administration's support. Accordingly, and respectfully, we will not appear at tomorrow's meeting of City Council.

I got into this project thinking it would be a good thing, and that my willingness to invest hundreds of millions of dollars in our city would have your public support. Mayor Mandel, this is an opportunity for Edmonton to be bold and forward-looking -- and it warrants your support and leadership.

My door is open if City Administration wishes to continue our discussions.

I also want to remind you of Commissioner Bettman's offer to come to Edmonton to help forge a deal that will enable us to move forward and that we can all be proud of. I hope you will consider taking him up on his offer.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Katz", with a stylized flourish extending from the end.

Daryl A. Katz
Chairman

cc: Members of Edmonton City Council
Simon Farbrother, City Manager
Gary Bettman, NHL Commissioner
John Karvellas, Executive Vice President and General Counsel, Katz Group